

Utility User Tax Facts

The Utility User Tax (UUT) may be imposed by a city on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including cell phone and long distance), sanitation and cable television.¹ The rate of the tax and the use of its revenues are determined by the local agency. A UUT may be imposed as a special tax, earmarked for a specific purpose, or a general tax to be used for a variety of municipal service needs at the discretion of the city council. The tax is levied by the city, collected by the utility as a part of its regular billing procedure, and then remitted to the city. Statewide, city and county utility user taxes generate more than \$1.8 billion per year.

Cities and Counties With UUTs					State
	Cities ²	Counties ²	Total		Population covered
Number with UUT	145	4	149		48%
Telephone UUTs	141	4	145		48%
Intrastate	141	4	145		48%
Interstate	77	4	81		36%
International	70	4	74		35%
Wireless	117	3	120		43%
Electricity	143	4	147		48%
Gas	143	4	147		48%
Cable TV	83	1	84		19%
Water	80	1	81		21%
Sewer	10	1	11		3%
Garbage	8	0	8		1%
Other	1	1	2		

Voter Approval is Now Required to Levy a New or Increased UUT

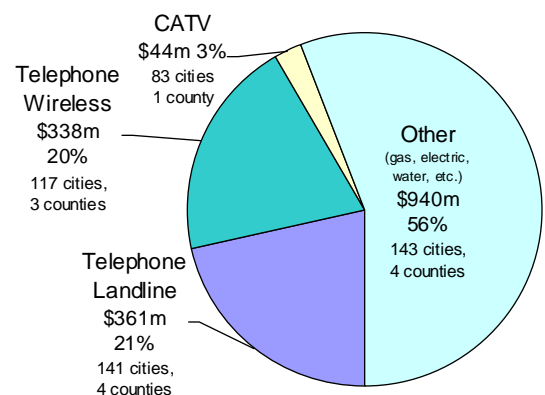
Most of the 145 cities and 4 counties² with UUTs adopted the taxes by vote of the city council (or in the case of a county UUT, the County Board of Supervisors) prior to 1986. Generally, taxes imposed since then require voter approval. The Constitution (Article XIIC) requires 2/3 voter approval for any new or increased special tax. A special tax is dedicated to a specific purpose. A new or increased general tax requires majority voter approval. Currently, all city UUT levies in California are general taxes.

The UUT is Vital to Funding Essential Municipal Services

City Utility User Tax rates range from 1% to 11%. The particular utilities to which the tax is applied varies. In some cities different rates apply to residential versus commercial users. The most common rate (the mode) is 5%, applied broadly among many types of utilities. The average rate (mean) is 5.5% with a standard deviation of 2.1%. Because most large cities have UUTs, roughly half of California residents and businesses pay a utility user tax.

The UUT is a vital element in the funding of critical city services. On average, the UUT provides 15% of general purpose (i.e. non-earmarked) revenue in cities that levy it. In some cities, the UUT provides as much as 1/3 of the general fund (Stockton, Seal Beach, Lawndale,

California City & County
UUT Revenues FY04-05



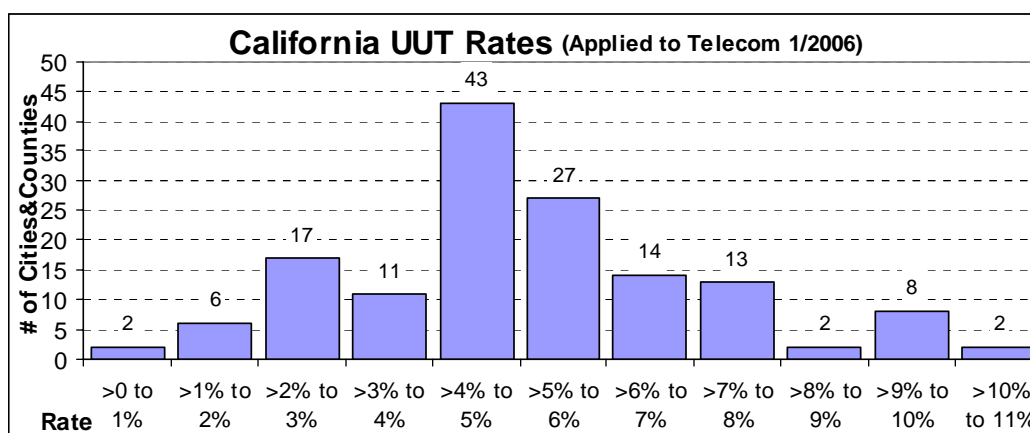
¹ Authority: General law cities: Government Code § 37100.5; Calif Constitution Article XI § 5 ("municipal affairs")

² The City/County of San Francisco is counted here as a county, not a city.

Winters). UUT revenues most commonly fund police, fire, parks, library, and long-range land use planning services – and related support services (e.g. accounting, payroll, personnel, information systems, etc.).

Counties Also Levy UUTs

A county may levy a UUT on the consumption of electricity, gas, water, sewer, telephone, telegraph and cable television services in the unincorporated area.³ Four (4) of the 58 counties levy a UUT (Alameda, Los Angeles, Sacramento, and San Francisco).



Some UUTs Result From State Cuts to City Funds

Many city UUT levies and increases have resulted from cuts to city revenues by the state. In 1992, facing massive deficits in the state budget, the Legislature and Governor began the annual transfer of billions of dollars of property tax revenue from cities, counties and special districts to K-14 schools, allowing the state to reduce its general fund spending on education. Cities and counties, who depend substantially on sales tax and property tax revenues for discretionary income, were already experiencing the same recessionary effects as the state. These property tax shifts, using a mechanism called the “Educational Revenue Augmentation Fund” (ERAF), continue today. In FY 2006-07 the annual property tax shift totals \$6.5 billion including over \$1.0 billion from cities.⁴

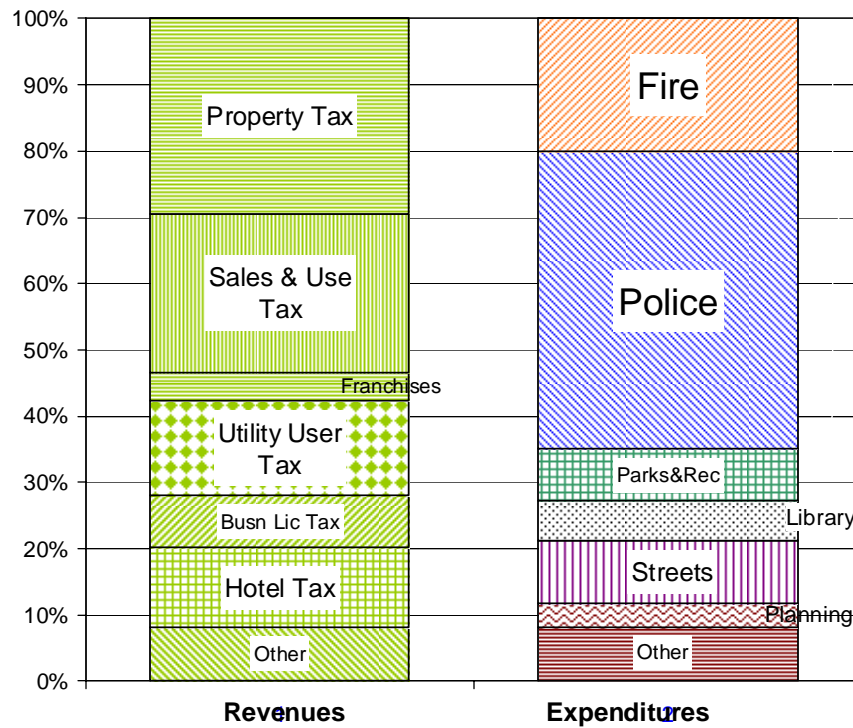
City property tax revenue, a top source of general purpose revenue for most, was cut from at least 9% and 24% on average. Cities responded by cutting services, deferring infrastructure maintenance, relying more heavily on debt financing, paring down reserves, more aggressively pursuing sales tax generators, and raising taxes and assessments. Within a few years of the beginning of the ERAF property tax shifts, more than fifty (50+) cities increased an existing or levied a new UUT.

³ Revenue and Taxation Code Section 7284.2 et seq.

⁴ For more information on ERAF, see <http://www.californiacityfinance.com/#ERAF>

Chart: Discretionary Revenues and Spending

Typical *Full Service* City



SOURCE: Coleman Advisory Service computations from State Controller data as reported by cities.